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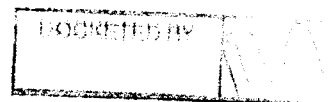
Janice K. Brewer
Governor

Jodi A. Jerich
Director

April 16, 2009

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Arizona Corporation Commission
APR 16 2009



Re: Energy Efficiency Technical Workshop – April 17, 2009
ACC Docket Nos. E-00000J-08-0314 and G-00000C-08-0314

Dear Mr. Johnson:

RUCO will not be able to appear before the Commission on April 17, 2009 for the Energy Efficiency Workshop. Nonetheless, RUCO would like to offer the following comments and appreciates the opportunity to make them.

Establishment of an Energy Efficiency Goal

The issue of energy conservation must be addressed. Environmental, ecological and financial considerations make reduced energy consumption a responsible, practical and even necessary component of any electric generation forecast.

Energy efficiency, through conservation and demand response, provides the fastest path to reduced carbon emissions. RUCO concurs with statements made in previous workshops that energy efficiency bridges the time until less carbon intensive electric generation can come on line.

RUCO supports the establishment of an energy efficiency goal. Furthermore, this goal should be aggressive – yet realistic. A 2006 report by the Western Governors Association shows an achievable potential estimate of 20% by 2020. However, other studies indicate an achievable potential estimate lower than 20%.¹

¹ See 2009 Electric Power Research Institute Assessment of Achievable Potential from Energy Efficiency and Demand Response; EPRI Report 1016987; www.epri.com

A primary purpose of these workshops is to determine whether to establish an efficiency goal. If the Commission decides to do just that, then it should calculate an achievable energy efficiency goal that is specifically tailored to Arizona and its forecasted energy consumption. Other states are not similarly situated and any goals that Arizona may establish should be based solely on our specific state's consumption patterns including our mix of residential, commercial and industrial users. What is right for one state may not be best for another. Modeling should be performed by the utilities and Staff and determine an accurate energy efficiency goal.

Incentives and Decoupling

Energy efficiency programs have the ironic twist of encouraging (and even requiring) a company to sell less of what it produces. Generally, a capitalist society favors and encourages consumption. This ingrained culture of consumption has hit a roadblock in the way of a growing desire of both consumers and policymakers to reduce carbon emissions.

It is fair to say that directing a utility to sell less of what it produces can conflict with the interests of the utility's shareholders. Energy efficiency programs hinder the utility's ability to achieve authorized earnings because of the reduced volume of sales. Furthermore, these programs defer the need for future capital investments that earn a rate of return. In other words, unrecovered costs of energy efficiency programs further erode a company's ROE.

Revenue decoupling is definitely in the best interests of the utility and its shareholders. It reduces the risk to the utility of any financial loss realized by an energy efficiency program. It also assists the utility in retaining a strong earned ROE. Since the company will receive revenue despite reduced sales, decoupling eliminates the financial disincentive to offer an energy efficiency program.

RUCO does not turn a blind eye to the extant financial disincentives created by energy efficiency programs. However, RUCO is concerned that decoupling may not be the best cost recovery mechanism from the ratepayers' perspective. Decoupling, while making the company whole, does not provide any accountability for managing the company's administrative costs or for implementing an effective energy efficiency program. RUCO is open to consideration of alternatives to address the issue of cost recovery but is highly troubled by mechanisms such as decoupling that shift the risks of recovery from shareholders to ratepayers, provide utilities guaranteed levels of revenues and provide no accountability for a well-run program.

Among the concerns associated with decoupling, revenue decoupling would require customers to pay for a predetermined level of service regardless of whether that level was actually consumed. When coupled with increased DSM conservation efforts, the decoupling mechanism may be counterproductive to conservation in that it will dilute the price message a customer receives when they reduce their demand. In effect, consumers will make efforts to turn down the heat, turn up the air conditioner, turn off the lights and purchase new, more energy efficient appliances only to end up paying the company for energy it does not use.

There are other alternatives that will accomplish the same objective without compromising the interests of the ratepayers. RUCO is particularly interested in exploring recovery mechanisms that reward the utility for successful reduction in consumption. A tiered incentive program can appropriately encourage a utility while holding it accountable for its performance. An incentive program can be structured in many ways and the workshops are a suitable forum for parties to construct programs that meet the Commission's approval. While the actual details of these programs can be addressed in the future, RUCO supports the general public policy of incentive programs for energy efficiency.

Another possible recovery mechanism that can work in conjunction with tiered incentives is the capitalization of program costs. This lets electric companies capitalize energy efficiency investments and earn a return on them, just as they would on a power plant or transmission line. Such capitalization may reduce concerns of "ROE erosion" that is associated with diminished sales due to energy efficiency programs.

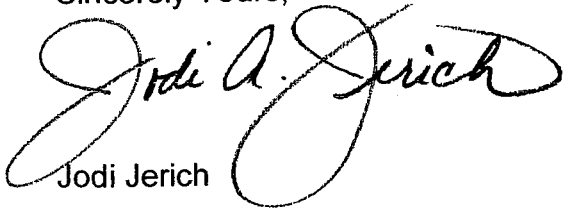
Treating energy efficiency investments as capital investments allows costs to be recovered over longer periods of time. To address the reduced earnings from energy efficiency, states are increasingly exploring incentive mechanisms that allow a utility to earn a return on energy efficiency expenditures similar to the return on invested capital. The intent is to give the utility an equal (or greater) financial incentive to invest in energy efficiency as compared to traditional utility infrastructure.² Capitalization may slightly increase the overall costs of the measures, but it significantly reduces the rate impact. This process could also increase the number of energy efficiency measures that pass cost effectiveness tests used by regulatory bodies to analyze resource acquisition options. At this time, RUCO makes no formal recommendation on this particular cost recovery option. However, we believe it is an option worth exploring.

² "Understanding Cost-Effectiveness of Energy Efficiency Programs" Edison Foundation, November 2008; http://www.edisonfoundation.net/iee/reports/NAPEE_cost-effectiveness.pdf

Ernest Johnson, Director
April 16, 2009
Page 4

Again, I appreciate your consideration of RUCO's comments and look forward to being a part of the discussion and resolution of these issues.

Sincerely Yours,

A handwritten signature in cursive script, reading "Jodi A. Jerich". The signature is fluid and stylized, with the first name "Jodi" being particularly prominent.

Jodi Jerich

cc: Docket Control
Commissioners
Parties of Record